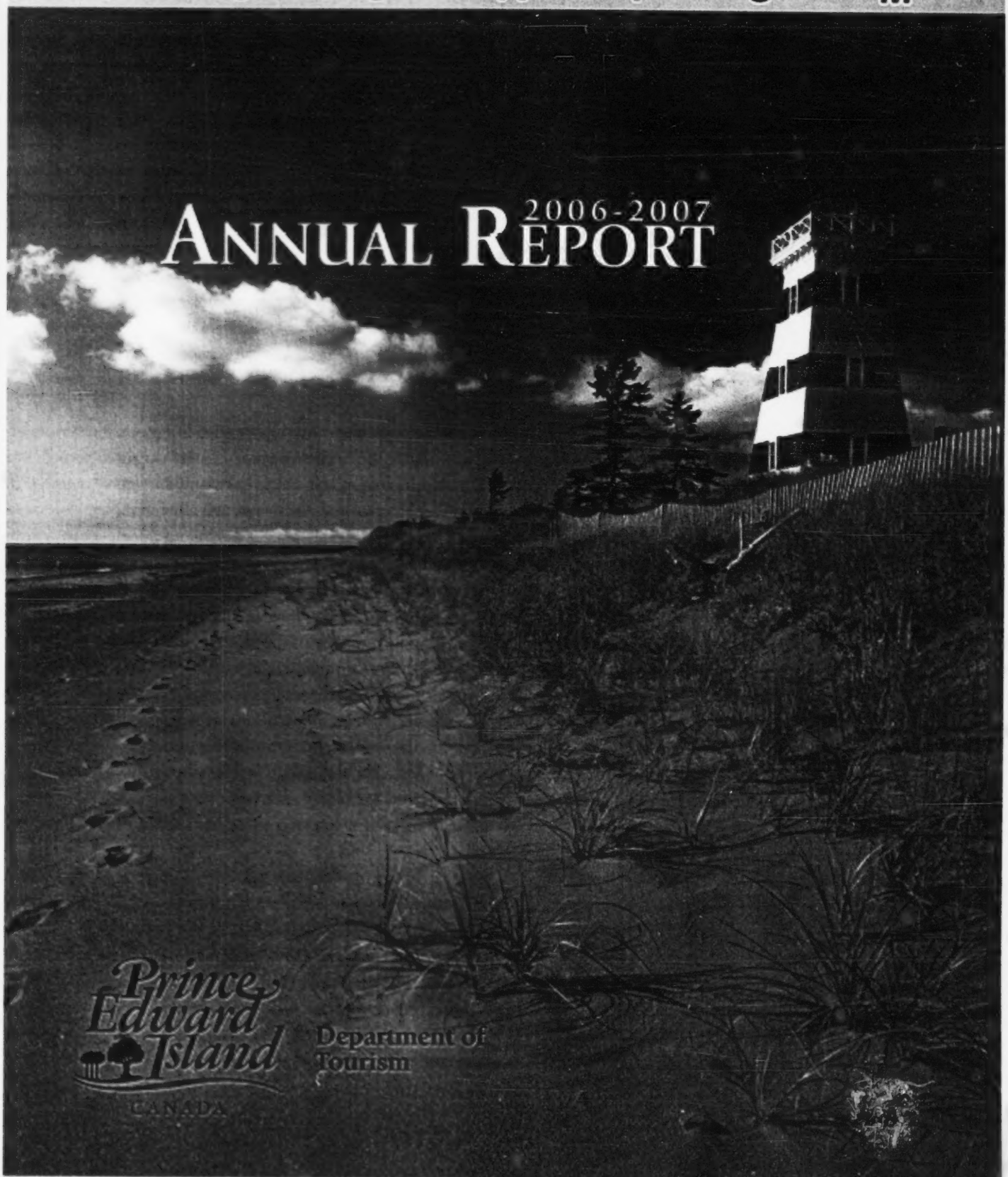
DEPARTMENT OF

TOURISM



2006-2007 ANNUAL REPORT

Prince Edward Island
CANADA

Department of Tourism

Prince Edward Island
Department of Tourism

Annual Report

2006-2007

2005 Recap

Tourism activity in 2005 was on par with 2004 visitation levels. Bridge traffic, which accounts for 80 per cent of visitor volume, was up 2.4% compared to 2004. Ferry activity declined by 5 per cent and air enplanements increased by 11 per cent as compared to 2004.

The PEI tourism industry embarked on a revised form of measurement in 2005. This includes measuring visitation year-round and includes non-resident as well as resident visitors. In 2005, it is estimated that 1.6 million non-resident and resident visitors contributed to the Island economy by staying overnight in hotels, eating in restaurants and visiting attractions.

2006 Statistics

In 2006, the Province of Prince Edward Island invested a net $12.7 million in Tourism PEI and
$38.3 million was returned to the provincial government in the form of tax revenue.

Tourism led to 7,126 jobs, payroll expenditures of $191.1 million, a contribution to GDP of $298.0 million, representing 6.9% of PEI's GDP, with Total Direct Revenues of $339.5 million, and a Total Economic Impact of $692.0 million (direct, indirect and induced).

300,000 Island Guides were printed. The marketing campaign generated 219,750 inquiries. Substantial growth occurred in the Meetings, Conventions, and Incentive Travel sector in 2006 which resulted in 50% growth and 22,703 delegate visitors.

2006 Priorities and Activities

PEI's competitive product strengths include world class golf, white sand beaches, Anne of Green Gables, seafood, and culture. We are a safe destination with warm hospitality and friendly people. Our target group is physically active, interested in walking/hiking, and golf.

There is a perception in the Maritime market that places in PEI are 'touristy' and 'overpriced'. Attractions aren't open in the shoulder season and there is a lack of staff at this time of year. There are issues with road conditions, and a higher tax environment. Tourism PEI has planned marketing and product development campaigns to deal with these issues.

In terms of human resources, Tourism PEI is undertaking research on specific age groups to determine barriers to joining the tourism workforce, and intends to create a tourism recruitment strategy based on research findings, and develop a tourism awareness campaign focusing on tourism as a career choice.

In order to help tourism operators, Tourism PEI worked with industry to implement a total market readiness program for tourism operators, and support best practice missions that will assist industry by learning about marketing and product development from leading models in other jurisdictions.

The Internet has heightened the consumer's ability to compare vacation destinations, price airline tickets and check room rates with only the click of a button. In this highly competitive marketplace, pricing and value for price are becoming even more important.

The new theme for PEI is "The Gentle Island." The tourism website was overhauled and the new website is called www.gentleisland.com. The PEI brand was unveiled by the Tourism Advisory Council to the tourism industry in March 2006, and the new advertising campaign came into full swing in the marketplace for this season.

The look and feel of the website has been enhanced and new navigation features have been added that will be more appealing for consumers. This new re-design will present Prince Edward Island in a manner that is consistent with the new brand.

The marketing campaign generated 219,750 inquiries. Going forward, the marketing plan includes developing new creative elements including television commercials, print ads, direct mail, and online ads. This plan also called for further investment in online advertising, a test to determine the validity of customer relationship management and new options on traditional media selection.

Tourism must plan for the growth in Internet consumer-generated content, e.g 'blogs' and consumer reviews. Word of mouth can outweigh traditional marketing and advertising. Almost 80% of Canadians have Internet access at home (50% with broadband capacity), and there is a need to expand on-line booking capabilities in order to close the sale with potential consumers. With the explosive growth of the Internet and the consumers more open to receiving relevant travel information via email, an opportunity exists to segment by activities and communicate one-to-one with consumers.

Enhancing tourism research capability is critical to tourism growth. In 2006, the University of Prince Edward Island (UPEI) was commissioned to work on various research projects. UPEI also held a summit in the fall of 2006 to extend the knowledge base for tourism educators, researchers and the industry.

Tourism PEI will continue to track and communicate key indicators of tourism performance that are reported monthly by transportation partners and industry stakeholders. Occupancy was expanded in 2006 to include customized reports that can be used at the operator level.

ECMA's kick started 2006 giving a substantial boost to the local economy. On June 19 and 20, 2006, the Making the Connection — Legends of Golf, was broadcasted both nationally and internationally. This event worked to raise the profile of golf in PEI. There were many successful large festivals and events including the Festival of Lights, Black Eyed Peas and the new Luminosity Festival in Summerside.

Tourism PEI began the process of converting the Island's 2,500 tourism signs to upgraded reflective material. There was also a multi-million dollar investment in the Cruise Port Development project and the opening of Atlantic Canada's newest Water Theme Park in Cavendish – Shining Waters. The new coastal touring drive in Eastern PEI – POINTS East Coastal Drive was launched. Air access grew, leading to a 19% increase in air traffic.

There was $400,000 investment in upgrading the Confederation Trail. This upgrade included branding of the trail to include the heritage of the railway. Investment was made in the extension of the trail-head at Gateway Village; the paving of welcome mats to increase visibility at 88 trail entry areas as well as upgrading the trail-head signs and trail warning signs.

Appendix A

Financial Statements

Tourism PEI

Consolidated Financial Statements
March 31, 2007

ArsenaultBestCameronEllis
CHARTERED ACCOUNTANTS

ArsenaultBestCameronEllis
CHARTERED ACCOUNTANTS

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April 27, 2007

Auditors' Report

To the Minister of Tourism

We have audited the consolidated balance sheet of **Tourism PEI** as at March 31, 2007 and the consolidated statements of earnings, deficit and cash flows for the year then ended. These consolidated financial statements have been prepared, in accordance with Canadian generally accepted accounting principles. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

ArsenaultBestCameronEllis

Chartered Accountants

Tourism PEI

Consolidated Balance Sheet

As at March 31, 2007

	2007 $	2006 $
Assets		
Current assets		
Cash	1,297,508	564,479
Accounts receivable (note 7)	1,054,026	1,156,279
Due from the Province of Prince Edward Island (note 4)	-	74,483
Inventory	174,202	206,878
Prepaid expenses	211,844	72,826
	2,737,580	2,074,945
Property and equipment (notes 3 and 7)	8,427,465	8,285,900
	11,165,045	10,360,845
Liabilities		
Current liabilities		
Promissory notes (note 5)	5,100,000	3,800,000
Accounts payable and accrued liabilities (note 7)	1,542,126	1,594,917
Due to the Province of Prince Edward Island (note 4)	1,094,087	-
Deferred membership revenue	20,452	-
Current portion of long-term debt	726,978	691,026
	8,483,643	6,085,943
Long-term debt, less current portion (note 6)	6,197,965	6,396,943
	14,681,608	12,482,886
Contingency (note 9)		
Deficit	3,516,563	2,122,041
	11,165,045	10,360,845

Approved by the Corporation

Minister

Tourism PEI

Consolidated Statement of Deficit

For the year ended March 31, 2007

	2007 $	2006 $
Deficit - Beginning of year	(2,122,041)	(1,229,975)
Excess expenses for the year	(1,394,522)	(892,066)
Deficit - End of year	(3,516,563)	(2,122,041)

Tourism PEI

Consolidated Statement of Earnings

For the year ended March 31, 2007

	2007		2006
	Budget (unaudited) $	**Actual $**	**Actual $**
Revenue			
Grants from Province of Prince Edward Island	12,162,200	13,607,217	12,136,420
Tourism Advisory Council	1,502,800	1,357,774	2,615,410
Brookvale Ski Park	220,000	230,223	191,663
Provincial Parks	948,400	854,296	812,425
Visitor Services	130,000	203,594	132,783
Golf Links operations	5,457,100	4,789,096	4,805,396
	20,420,500	21,042,200	20,694,097
Expenses			
Administration	959,100	899,563	1,087,067
Tourism Advisory Council	6,454,100	6,435,461	6,866,265
Brookvale Ski Park	424,400	478,025	442,294
Provincial Parks (note 7)	2,714,300	2,980,821	2,841,217
Visitor Services	497,500	536,553	510,998
Tourism Development	1,483,300	2,554,724	1,811,935
Tourism Marketing	2,157,300	1,944,524	2,109,875
Research	154,500	145,650	110,150
French Services	78,900	290,096	108,900
Golf Links operations (note 7)	5,114,100	5,301,166	4,755,669
Interest on long-term debt - Golf Links (note 7)	416,400	361,682	403,472
Amortization - Golf Links	586,800	520,642	545,602
	21,040,700	22,448,907	21,593,444
	(620,200)	(1,406,707)	(899,347)
Other income			
Gain on disposal of property and equipment - Golf Links	-	12,185	7,281
Excess expenses for the year	(620,200)	(1,394,522)	(892,066)

Tourism PEI

Consolidated Statement of Cash Flows

For the year ended March 31, 2007

	2007 $	2006 $
Cash provided by (used in)		
Operating activities		
Excess expenses for the year	(1,394,522)	(892,066)
Amortization of property and equipment	520,642	545,602
Gain on sale of property and equipment	(12,185)	(7,281)
	(886,065)	(353,745)
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	102,253	(206,603)
Decrease in inventory	32,676	164,662
Increase in prepaid expenses	(139,018)	(62,546)
Decrease in accounts payable and accrued liabilities	(52,791)	(659,444)
Increase in deferred membership revenue	20,452	-
Increase (decrease) in due from/to the Province of Prince Edward Island	1,168,570	(191,011)
	246,077	(1,308,687)
Financing activities		
Increase in promissory notes - net	1,300,000	1,100,000
Proceeds on long-term debt	660,000	500,000
Repayment of long-term debt	(823,026)	(674,773)
	1,136,974	925,227
Investing activities		
Purchase of property and equipment	(760,205)	(506,037)
Proceeds on disposal of property and equipment	110,183	7,281
	(650,022)	(498,756)
Increase (decrease) in cash	733,029	(882,216)
Cash - Beginning of year	564,479	1,446,695
Cash - End of year	1,297,508	564,479
Supplementary disclosure		
Interest paid	533,187	500,674

Tourism PEI

Notes to Consolidated Financial Statements
March 31, 2007

1 Basis of presentation

Consolidation

These financial statements include the operations of Tourism PEI and its wholly-owned subsidiary, Golf Links Prince Edward Island Inc.

Status of the corporation

Tourism PEI became a Crown corporation effective March 31, 1999 under the Tourism PEI Act passed by the Government of Prince Edward Island on June 8, 1999. The objectives of Tourism PEI are to carry out tourism related activities of the Province of Prince Edward Island.

The objectives of Golf Links Prince Edward Island Inc. are to maintain and operate the provincially owned golf courses.

The financial results of the corporation are included in the public accounts of the Province of Prince Edward Island.

2 Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of significant accounting policies used in preparation of these financial statements.

Inventory

Inventory is valued at the lower of cost, determined using the average cost method, and market. Market is defined as net realizable value.

Property and equipment

Tourism PEI expenses property and equipment in the period purchased except for real property acquired by the company which is recorded as an asset.

Real property transferred to Tourism PEI at no cost is recorded at a nominal value.

Golf Links Prince Edward Island Inc. records at cost property and equipment having a useful life of greater than one year as an asset in the period purchased.

Amortization

Amortization is calculated using the straight-line method at the annual rates as indicated in note 3. One-half the normal annual rate of amortization is recorded in the year of acquisition. No amortization is recorded in the year of disposal.

Tourism PEI

Notes to Consolidated Financial Statements
March 31, 2007

Capital costs related to the construction of the playing areas of the Dundarave Golf Course are not amortized.

Due to (from) the Province of Prince Edward Island

Current operations:

Excess revenue (expenses) for the year for Tourism PEI is recorded as a reduction (increase) in Grants - Province of Prince Edward Island and as an amount due to (from) the Province of Prince Edward Island. Golf Links Prince Edward Island Inc. records excess revenue (expenses) as an increase (decrease) in retained earnings (deficit).

Revenue recognition and government assistance

Tourism PEI

Grants from the Province of Prince Edward Island are recorded as revenue when received. Revenue from Tourism Advisory Council activity is recorded when billed and revenue from park operations, services and fees is recorded when earned as services are provided. Excess revenue (expenses) for the year for the Tourism PEI entity is recorded as a reduction (increase) in Grants - Province of Prince Edward Island and as an amount due from (to) the Province of Prince Edward Island.

Government grants funded by the federal government or a federal-provincial cost-shared agreement, received related to operations, are recorded as revenue in the period in which the related expenses are recorded. Unexpended amounts as at the year end are recorded as deferred revenue. During the year, the Tourism Advisory Council received federal government grants totaling nil (2006 - nil).

Federal and provincial government grants related to property and equipment are recorded as a reduction in the cost of the related assets in the period purchased. Unexpended amounts as at the year end are recorded as an accrued liability.

Expenses are recorded in the period in which the related goods and services are consumed except for Tourism Advisory Council and program grants included in Tourism Development and Tourism Marketing expenses. Tourism Advisory Council expenditures are recorded in the period the goods and services are acquired and a liability incurred. Program grant expenditures are recorded in the period in which the funds are approved for disbursement.

Golf Links Prince Edward Island Inc.

Revenue from green fees, golf shop, rentals and concessions is recognized when goods or services are delivered to the customer and ultimate collection is reasonably assured.

Revenue from memberships is recognized in the period earned and when ultimate collection is reasonably assured.

Tourism PEI

Notes to Consolidated Financial Statements
March 31, 2007

Vacation pay and pension liabilities

The staff of Tourism PEI and Golf Links Prince Edward Island Inc. are employees of the Province of Prince Edward Island. Direct costs for employees of the Province of Prince Edward Island allocated to Tourism PEI and Golf Links Prince Edward Island Inc. are charged to the company on a per-payroll basis. Since the staff are employees of the Province, accrued vacation pay and pension obligations are liabilities of the Province and not the corporation and no liability for these costs has been accrued by the corporation as at March 31, 2007.

Management estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period.

Fair value of financial instruments

The Corporation has evaluated the fair value of its financial instruments based on the current interest rate environment, market values and the actual prices of financial instruments with similar terms. The carrying value of financial instruments is considered to approximate fair value.

3 Property and equipment

				2007	2006
	Amortization rate %	Cost $	Accumulated amortization $	Net $	Net $
Land and buildings - Mill River Fun Park		1	-	1	1
Dundarave golf course	-	6,122,211	-	6,122,211	6,122,211
Land improvements and paving	10 - 20	706,725	285,847	420,878	467,421
Computer equipment and software	20	235,345	180,706	54,639	70,771
Power cars	14.3	1,182,818	541,252	641,566	213,750
Rental equipment	20	61,853	46,549	15,304	24,743
Equipment	10 - 20	3,355,557	2,497,024	858,533	1,039,977
Vehicles	20	93,004	88,622	4,382	5,187
Buildings	10	580,798	292,450	288,348	329,670
Signage	5	31,729	10,126	21,603	12,169
		12,370,041	3,942,576	8,427,465	8,285,900

Tourism PEI

Notes to Consolidated Financial Statements
March 31, 2007

4 Due to (from) the Province of Prince Edward Island

	2007 $	2006 $
Current operations		
Excess revenue (expenses) for the year - Tourism PEI	1,094,687	(74,483)

5 Promissory notes

The promissory notes are due April 1, 2007, bear interest at monthly floating interest rates and are repayable to the Department of Provincial Treasury of Prince Edward Island. The notes are unsecured.

6 Long-term debt

	2007 $	2006 $
4.87% loan from the Department of Provincial Treasury of Prince Edward Island, due December 7, 2020, repayable at $563,681 annually including interest	5,626,343	5,902,569
4.35% loan from the Department of Provincial Treasury of Prince Edward Island, due March 31, 2008, repayable $40,000 annually plus interest	40,000	80,000
4.51% loan from the Department of Provincial Treasury of Prince Edward Island, due March 31, 2009, repayable $65,300 annually plus interest	130,600	195,900
4.21% loan from the Department of Provincial Treasury of Prince Edward Island, due March 31, 2009, repayable $100,000 annually plus interest	200,000	300,000
4.67% loan from the Department of Provincial Treasury of Prince Edward Island, due March 31, 2011, repayable $100,000 annually plus interest	400,000	500,000
5.01% loan from the Department of Provincial Treasury of Prince Edward Island, due March 31, 2011, repayable at $132,000 annually plus interest	528,000	-
5.67% loan from the Department of Provincial Treasury of Prince Edward Island, repaid during the year	-	45,000
4.84% loan from the Department of Provincial Treasury of Prince Edward Island, repaid during the year	-	64,500
	6,924,943	7,087,969
Less: Current portion	726,978	691,026
	6,197,965	6,396,943

Tourism PEI

Notes to Consolidated Financial Statements
March 31, 2007

The long-term debt is unsecured.

The aggregate amount of principal payments estimated to be required in each of the next five years to meet retirement provisions is as follows:

	$
Year ending March 31, 2008	726,978
2009	701,085
2010	550,579
2011	566,095
2012	350,365

7 Related party transactions

Tourism PEI utilizes the provincial parks, including Brookvale Ski Park, the provincial day parks and the full service campgrounds, as well as the Visitor Information Centres in carrying out its mandate. Tourism PEI has paid nil consideration for utilizing these facilities.

Golf Links Prince Edward Island Inc. utilizes three provincial golf courses from the Province of Prince Edward Island for nil consideration.

During the 1999 year, the Province of Prince Edward Island transferred property and equipment utilized in maintenance and operation of the three provincial golf courses to Golf Links Prince Edward Island Inc. In accordance with the terms of the transfer, the exchange and carrying amounts of the property and equipment was established as $1.

Included in accounts receivable is an amount of $7,163 (2006 - $7,715) due from a provincial Crown corporation and nil (2006 - $904) due from the Department of Transportation and Public Works. Included in accounts payable and accrued liabilities is $45,332 (2006 - $8,391) due to a department of the Province of Prince Edward Island, $11,206 (2006 - nil) due to Prince Edward Island Business Development Inc., a provincial Crown corporation, and $1,357 (2006 - nil) due to Environmental Industrial Services Inc., a subsidiary of Prince Edward Island Business Development Inc.

During the year, the companies paid a total of $539,387 (2006 - $500,807) in interest to the Department of Provincial Treasury of Prince Edward Island. Included in this total is $361,682 (2006 - $403,472) of interest on long-term debt related to loans issued by the Department of Provincial Treasury of Prince Edward Island. Of the remainder, $171,505 (2006 - $97,202) is included in Golf Links operations and $6,200 (2006 - $133) is included in Tourism PEI expenses.

During the year, Golf Links Prince Edward Island Inc. received a grant of nil (2006 - $20,000) from the Department of Development of Prince Edward Island which has been recorded as a reduction in Golf Links expenses.

During the year, Tourism PEI received a grant of nil (2006 - $21,600) from the Department of Development of Prince Edward Island to fund repairs. This amount has been recorded as a reduction in Provincial Parks expense.

Tourism PEI

Notes to Consolidated Financial Statements

March 31, 2007

8 Commitments

The minimum annual lease payments required over the next five years by Golf Links Prince Edward Island Inc. under operating leases for base rentals including premises in Brudenell and Mill River expiring in August 2009 and August 2075 respectively and for an equipment lease expiring in October 2007 are as follows:

	Equipment $	Premises $
Year ending March 31, 2008	13,004	122,224
2009	13,004	50,927
2010	13,004	1
2011	-	1
2012	-	1

In addition to the base lease rentals, there is a requirement to pay the company's pro-rata share, based on rented space, of the operating costs including property taxes of the premises.

9 Event management agreement commitment

Tourism PEI has entered into an agreement to co-promote an event in 2006, 2007 and 2008 which requires an annual deposit payment of $400,000 to support the cash flow requirements of the event. If in any year revenues of the event are not sufficient to offset all costs, Tourism PEI will be responsible for any shortfall with such cost to Tourism PEI limited to the $400,000 deposit payment plus any shortfall on event operations. No liability has been recorded at March 31, 2007 for any estimated shortfall payment related to the 2007 event as any likelihood of such payment, if any, cannot be determined.

The net shortfall from the 2006 event, on top of the deposit payment, expensed by Tourism PEI in the 2007 year was $131,811.

10 Subsequent event

Effective April 11, 2007, Confederation Golf Inc., a company owned by the Province of Prince Edward Island, transferred real property consisting of approximately 73.7 acres of land, plus buildings, located in Roseneath, P.E.I. to Golf Links Prince Edward Island Inc. In accordance with the terms of the transfer, the exchange and carrying amount of the property and equipment was established as $1.

Prince Edward Island
CANADA

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